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C O N F I D E N T I A L SECTION 01 OF 04 SANTO DOMINGO 005242

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USDOC FOR 4322/ITA/MAC/WH/CARIBBEAN BASIN DIVISION
USDOC FOR 3134/ITA/USFCS/RD/WH
STATE FOR USTR

E.O. 12958: DECL: 09/17/2009
TAGS: ETRD EFIN PREL PGOV DR
SUBJECT: DOMINICAN PRES. FERNANDEZ OFFERS TO RESOLVE CORN SYRUP TAX ISSUE

REF: A. SANTO DOMINGO 5080

¶B. SANTO DOMINGO 5024

Classified By: Ambassador Hans H. Hertell for Reason 1.4 (a) and (d).

¶1. (C) Summary: Visiting USOAS PermRep Ambassador John Maisto and Ambassador Hertell took advantage of a meeting planned on Summit of the Americas to tell President Fernandez and Foreign Secretary Carlos Morales Troncoso September 16 that a proposed 25 percent tax on products containing high fructose corn syrup (HFCS), if approved by the Domnican Congress as planned September 21, would be a deal-breaker for U.S. ratification of DR-CAFTA. Fernandez got the message and proposed that he (and the USG) try to convince leaders of the opposition PRD -- which controls the Dominican Congress -- to delete the tax from the fiscal reform bill, now awaiting passage as part of a series of measures needed to re-launch an IMF program. Both sides agreed there were other, better ways to deal with the Dominican sugar industry's concerns, e.g., joining us as allies in the WTO to negotiate a global opening in agriculture as part of the multilateral negotiations launched at Doha. On the fiscal reform overall, Maisto noted that the key to resuming an IMF program was to develop a program that would meet the government's financial needs. Such a program would offer a basis for dialogue with the IMF and other international financial institutions. Fernandez said he was "trying to do things correctly" with the IMF, but had to consider the dire social consequences of a drastic fiscal adjustment, which could mean political "suicide" for his newly installed administration. Also on September 16, Ambassador Hertell met with leaders of free-zone businesses and urged them to mount a last-minute lobbying effort. End summary.

Status of HFCS tax

¶2. (C) Visiting USOAS PermRep Ambassador John Maisto and Ambassador Hertell, accompanied by Embassy staff, met September 16 with President Fernandez (PLD) and Foreign Secretary Carlos Morales Troncoso to discuss Summit of the

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Americas. They took advantage of the opportunity to raise the pending fiscal reform, passage of which is needed for renewal of the Dominican Republic's IMF program. The conversation focused on a 25 percent tax on beverages containing high fructose corn syrup (HFCS) that had been added to the bill at the last minute before approval in the Chamber of Deputies and which President Fernandez, opposition PRD chief Vicente Sanchez Baret, and Senate president Andres Bautista (PRD) had all promised Ambassador Hertell September 9 would be removed before full passage of the fiscal reform bill (see reftel). The Senate unexpectedly approved the first reading of the fiscal reform bill September 14 with the 25 percent tax still in it. A second (final) reading and vote is scheduled for September 21.

Deal-Breaker for DR-CAFTA

¶3. (C) Ambassadors Maisto and Hertell told Fernandez that, despite much good will in Washington toward his newly installed administration, we could not renegotiate any provision of the free trade agreement (DR-CAFTA), period. The negotiations are over, they emphasized. The DR-CAFTA, as signed in August, was an international commitment, subject only to ratification. The proposed tax on products containing HFCS ran counter to DR-CAFTA and would be a deal-breaker in the ratification process. U.S. legislators who are friends of the Dominican Republic have indicated that

the tax would kill DR-CAFTA's chances for ratification.

¶4. (C) On the fiscal reform as a whole, Maisto urged Fernandez to exert leadership and take bold strokes; band-aid solutions would not work. The GODR needed to develop a financial program that adds up and makes sense. If this happens, there would be a basis for a solution to be discussed with the IMF and other international financial institutions.

Good Administration, Bad Congress

¶5. (C) President Fernandez replied that he was carrying out the fiscal reform as mandated by the IMF: "I'm willing to cooperate and am trying to do things correctly." His proposed fiscal adjustment, 2.5 percent of GDP through revenue measures plus a 10 percent cut in public spending, was the limit of what was politically feasible or economically possible. If he deepened the adjustment to 4 percent of GDP as recommended by the IMF, "people would go into the streets" and his new government would commit "suicide." The country is very fragile, he asserted. He is still consolidating his administration. Critics, here and abroad, were "misunderstanding" his good faith efforts. He had anticipated that relations with the IMF would be "more fluid," but now his government was "paralyzed" (by lack of access to further IFI disbursements). The DR's financial predicament was due to the previous administration's "failure of leadership and mismanagement." His government, by contrast, was trying hard to move on all fronts -- with the IMF, with the Paris Club, and with Venezuelan President Chavez over preferential terms for buying oil. Fernandez asked that the IFIs "give me the green light."

¶6. (C) The opposition PRD -- not the Fernandez administration -- inserted the HFCS tax into the legislation, the President noted. The PRD, which controls Congress, had created the problem. Ambassador Hertell had asked him to remove the tax, and Fernandez noted that critics were saying such a move would be tantamount to promoting a special interest over the national interest. Fernandez mentioned "options" of (1) passing the urgently needed fiscal reform as is and later revoking the HFCS tax through separate legislation, or (2) reducing the tax from 25 percent to 15 or 10. Ambassador Hertell emphasized that both these ideas were non-starters. Fernandez said he had acceded to our wishes and sent a letter to the Senate requesting deletion of the tax. For this he had been harshly criticized in the press. The tax was a real problem, but should be viewed as a conflict between private interests, not between governments.

¶7. (C) Ambassador Hertell said we appreciated Fernandez's effort with the letter. However, Senate contacts had told us that the letter -- signed by Technical Secretary of the Presidency Temistocles Montas -- had been insufficient and that it was necessary for Fernandez to send a clear statement of policy over his own signature. Ambassador Maisto urged Fernandez to agree to a meeting with Treasury Secretary Snow in Washington during the President's upcoming trip to the United States (September 19-26). President Fernandez said he first wanted to hear back from the GODR officials who were visiting Treasury September 16. Maisto emphasized that the only way to resolve the protectionism issue, which underlay the proposal to tax beverages using HFCS, was for the United States and the Dominican Republic to work together in Geneva to significantly reduce agricultural subsidies worldwide. That, he said, would be a win-win for all.

Leonel's Proposal

¶8. (C) Near the end of the long discussion, President Fernandez acknowledged the urgent need to find a solution to the HFCS tax issue. This provision had to be removed from the fiscal package. Fernandez would talk with three PRD leaders -- former President Mejia, party president Vicente Sanchez Baret, and Senate president Andres Bautista -- and convince them to modify the bill in the Senate on September 21 and then secure prompt approval of the bill by the Chamber of Deputies without the 25 percent tax. Mejia, despite his electoral defeat, was still influential, and he might be willing to help to save the DR-CAFTA. Fernandez had succeed in getting Mejia to weigh in on other occasions. Fernandez requested that Ambassador Hertell lend a hand in trying to persuade these leaders. The Ambassador plans follow-up. Fernandez also mentioned that the GODR could then bring a case against the USG in the WTO for use of "unfair agricultural subsidies." Ambassadors Maisto and Hertell urged President Fernandez to take the high-road, win-win approach of joining forces in the WTO, rather than this low-road approach of a WTO dispute that had been suggested by some private sector Dominicans.

Comment

¶9. (C) This is the second time that Fernandez has agreed to action to get the Senate to remove the 25 percent tax from the fiscal reform bill before the bill's passage. Bautista's about-face, which we understand was due to his offense at being pressured by PRD party chief Sanchez Baret, suggests that institutional, partisan, or interpersonal sensitivities could still override clear calculation of national interests. Another potential obstacle could be the lack of a letter to the Senate signed by Fernandez himself. Despite the fact that Fernandez's Technical Secretary Temistocles Montas had written a letter to the Senate requesting removal of the 25 percent tax, the opposition has been asking for one from Fernandez to, in their own words, "dispel doubts" about his true views on this issue. Despite Embassy's many conversations with government, party, congressional, and private sector representatives, it is still too early to know how the vote will go; we hope that our many Dominican interlocutors have heard our insistent and clear message that the 25 percent tax is unacceptable.

¶10. (C) The leaders of manufacturing and free zone enterprises that stand to benefit from the DR-CAFTA are finally awakened to the threat of the well-organized campaign that agricultural interests have conducted for the past several months to sink the accord. Whether the businesses' last-minute lobbying will be enough to turn the tide in Congress remains to be seen.

HERTELL